



Bill Analysis

Author: Tangipa

Sponsor:

Bill Number: AB 2533

Related Bills: See Legislative
History

Amended: March 25, 2026

SUBJECT

Deduction for Employer Provided Fitness Benefit

SUMMARY

This bill would, under the Personal Income Tax Law (PITL), for taxable years beginning on or after January 1, 2026, allow an above-the-line deduction for a qualified fitness benefit provided by an employer to an employee.

RECOMMENDATION

No position—The three-member Franchise Tax Board has not formally voted or taken a position on this bill.

SUMMARY OF AMENDMENTS

The March 25, 2026, amendments made technical changes, replaced the gross income exclusion provision with a deduction and modified the definition for “qualified fitness benefit.” These amendments created new implementation, technical, and policy considerations.

REASON FOR THE BILL

The reason for the bill is to encourage employer-sponsored wellness programs.

ANALYSIS

This bill, under the PITL, for taxable years beginning on or after January 1, 2026, would allow an above-the-line deduction for a qualified fitness benefit provided by an employer to an employee.

For purposes of this bill “qualified fitness benefit” would mean a uniform stipend amount to all full-time employee for fees or dues for membership in a fitness center, health club, or gym.

The deduction would not apply to any of the following:

- Memberships in any club where the primary purpose is social, athletic, or sporting, such as a country club or golf club.
- Expenses for travel, meals, or lodging associated with fitness activities.
- A stipend amount for fees or dues for membership in a fitness center, health club, or gym provided to highly compensated employees that exceeds the amount provided to any other full-time employee.

This bill would provide that the deduction would apply regardless of whether the benefit is provided through a direct payment to a third party or as a reimbursement to the employee upon proof of payment.

This bill would require, for purposes of complying with Revenue and Taxation Code (RTC) section 41, the Franchise Tax Board (FTB) to report to the Legislature, on or before June 30, 2029, and each June 30 thereafter. The report would be required to include the number of California taxpayers that receive the deduction for the most recent taxable year. The Section 41 reporting requirements would be treated as an exception to the general prohibition against disclosure of confidential taxpayer information.

Effective/Operative Date

As a tax levy, this bill would be effective immediately upon enactment and specifically operative for taxable years beginning on or after January 1, 2026.

Federal/State Law

Under existing federal law, fringe benefits are generally treated as taxable compensation to an employee unless a specific exclusion applies. Common exclusions include certain employee discounts, no-additional-cost services, qualified transportation benefits, and limited employer-provided benefits such as health flex spending arrangements. Taxable fringe benefits must be included in wages unless specifically excluded. Federal guidelines also provide special valuation methods for certain benefits, including employer-provided vehicles, group-term life insurance, meals, lodging, and transportation benefits.

Existing federal and state laws allow for the deduction of certain expenses, from gross income, when calculating adjusted gross income (AGI), such as moving expenses and interest on education loans, certain ordinary and necessary trade and business expenses, losses from the sale or exchange of certain property, contributions for pension, profit-sharing and annuity plans of self-employed individuals, and retirement savings. Thus, all taxpayers with these types of expenses receive the benefit of the deduction, regardless of whether the taxpayer itemizes deductions or uses the standard deduction. These are known as above-the-line deductions.

In addition, California legislation that would create a new tax expenditure, which includes a credit, deduction, exemption, or any other tax benefit as provided for by the state, is required to include specific goals, purposes, objectives, detailed performance indicators and data collection requirement measures to allow the Legislature to evaluate the effectiveness of the tax benefit.

Implementation Considerations

The FTB has identified the following considerations and is available to work with the author's office to resolve this and other considerations that may be identified.

The bill uses the undefined phrase that "any club where the primary purpose is social, athletic, or sporting". Many modern fitness centers are hybrid facilities offering features such as workspaces, cafes, and lounges. Absent metrics or requirements to determine the "primary purpose" of a club, this phrase could be broadly interpreted and may lead to taxpayer confusion and administrative difficulty. If this is contrary to the author's intent, the author may wish to amend the bill.

The bill also includes several undefined terms, such as "highly compensated employee," "full time employee," "any club," and "uniform stipend amount." The author may wish to amend the bill to clarify these terms.

Additionally, the bill refers to "the benefit" and states that it "is provided through" certain payment methods. This phrasing does not clearly identify the employer as the party providing the qualified fitness benefit, does not use the defined term "qualified fitness benefit," and may be read broadly enough to include payments made by entities other than the employer. For clarity, the author may wish to amend the bill.

Technical Considerations

For clarity, in Section 17206(a), replace "employee" with "taxpayer".

For consistency and clarity, in Section 17206(e)(3), replace, "that claimed" with "allowed."

Policy Considerations

This bill does not provide a sunset date, which would generally allow periodic review of the effectiveness of the tax law change. If this is contrary to the author's intent, the author may wish to amend the bill.

The bill uses the term employee but does not specify whether the taxpayer may be a part-time employee or whether the taxpayer needs to be employed for a minimum period during the taxable year to qualify for the exclusion. For clarity, the author may wish to amend the bill.

The bill would exclude up to \$600, per year, of qualified fitness benefit provided by an employer to an employee, from being considered wages under the Unemployment Insurance Code (UIC). However, this bill would provide an unlimited amount of "qualified fitness benefit" as an above the line deduction for income tax purposes in the RTC, and would not be limited to the \$600 limitation provided in the UIC. If this is contrary to the author's intent the author may wish to amend the bill.

LEGISLATIVE HISTORY

AB 781(DeMaio, 2025/2026), under the PITL, would have allowed a deduction on a California personal income tax return for contributions to a Health Savings Account as is allowed on a federal individual income tax return for taxable years beginning on or after January 1, 2026, and before January 1, 2031. This bill did not pass out of the Assembly by the required deadline.

SB 1249 (Richardson, 2025/2026), under the PITL, would allow an above-the-line deduction for qualified taxpayers who claim one or more elderly senior dependents for taxable years beginning on or after January 1, 2027, and before January 1, 2032. This bill has been referred to the Senate Revenue and Taxation Committee.

PROGRAM BACKGROUND

None noted.

OTHER STATES' INFORMATION

None noted.

FISCAL IMPACT

FTB's costs to implement this bill have yet to be determined. As the bill moves through the legislative process, costs will be identified.

ECONOMIC IMPACT

Revenue Estimate

This bill would result in the following revenue loss:

Estimated Revenue Impact of AB 2533 as Amended March 25, 2026
Assumed Enactment after June 30, 2026

(\$ in Millions)

Fiscal Year	Revenue
2026-2027	-\$120
2027-2028	-\$80
2028-2029	-\$80

This analysis does not account for changes in employment, personal income, or gross state product that could result from this bill or for the net final payment method of accrual.

LEGAL IMPACT

None noted.

EQUITY IMPACT

None noted.

APPOINTMENTS

None noted.

SUPPORT/OPPOSITION

Assembly Revenue and Taxation Committee Report, dated April 3, 2026

Support

National Health and Fitness Association
Peace Officers Research Association of California (PORAC)
SFV Alliance

Opposition

California Teachers Association
California Tax Reform Association
CFT – a Union of Educators & Classified Professionals, AFT, AFL-CIO

ARGUMENTS

Assembly Revenue and Taxation Committee Report, dated April 3, 2026

Proponents

The bill is supported by the Peace Officers Research Association of California (PORAC), noting in part:

Encouraging access to fitness programs can help improve overall health, reduce stress, and support workforce readiness. For public safety professionals, maintaining physical fitness is an essential part of the job. Providing additional support for fitness-related expenses can help promote healthier lifestyles and contribute to long-term well-being. AB 2533 offers a straightforward approach to incentivizing these benefits and supports both employees and employers in prioritizing health.

Opponents

The bill is opposed by California Tax Reform Association which noted:

Many employers already provide wellness and fitness benefits, which are deductible as a business expense. For those instances that qualify as medical expenses, they are non-taxable, while other benefits such as gym memberships are taxable to the employee. Additionally, this legislation will also complicate the state code, since no such provisions exist in federal law.

LEGISLATIVE CONTACT

FTBLegislativeServices@ftb.ca.gov